

DECIPHERING THE INTRICACIES OF PAYMENT OF BONUS ACT 1965**Author(s)***P Naga Lasya Sri¹***Abstract**

The Payment of Bonus Act of 1965,² a fundamental piece of Indian labour law, seeks to promote fair profit-sharing between companies and workers.³ The Act, which is applicable throughout India, requires businesses with 20 or more workers—including temporary, probationary, and part-time employees—to offer bonuses. Interns and employees recruited by contractors are not included, though. With a monthly cap of Rs. 7,000, the Act stipulates a minimum bonus of 8.33% and a maximum incentive of 20% of an employee's income. Bonus payments are to be made within eight months after the fiscal year's conclusion. Employee misconduct, such as engaging in violent or dishonest behaviour, is grounds for disqualification. The Act's implementation relies heavily on the provisions that deal with calculation and payment.⁴ The cap on pays computations balances business liabilities, while the minimal bonus guarantees a baseline benefit for workers. ⁵The Act's provisions have been further clarified by judicial interpretations through seminal case laws, especially in resolving disagreements about eligibility, payment schedules, and disqualification standards. The way the law is applied in practice has been greatly influenced by these decisions. The Act has significant operational issues despite its well-meaning framework. Employees occasionally experience delays or conflicts over payments, and employers frequently struggle financially to satisfy bonus obligations, particularly during economic downturns. Furthermore,

¹ P Naga Lasya Sri is a fourth-year student pursuing a 5-year integrated BCom LLB course at Christ Academy Institute of Law. Through her academic pursuits, she aims to contribute to the field of law and make a positive impact.

² The Payment of Bonus Act of 1965

³ Amitabh Kumar (2017). Payment of Bonus Act, 1965: A Critical Analysis. *Journal of Labour Law*, 15(1), 115.

⁴ S.K. Agarwal (2014). Implementation of the Payment of Bonus Act, 1965. *Journal of Labour Law*, 14(1), 1-10.

⁵ A.K. Srivastava (2016). Disqualification of Employees under the Payment of Bonus Act, 1965. *Labour Law Reporter*, 28(1), 1-8.

legal disputes and lengthy court proceedings have resulted from uncertainty in specific laws. By looking at the Payment of Bonus Act's applicability, bonus computation methods, and judicial interventions, this paper explores the complexities of the law. It also draws attention to ongoing disagreements and implementation challenges that reduce its efficacy. This study attempts to offer a thorough grasp of the Act's influence on Indian labour relations and its function in promoting fair profit-sharing between employers and employees by exploring these issues and examining case law.

Key Words

Payment of Bonus Act, Indian Labour Law, Profit-Sharing, Employee Benefits, Labour Rights.

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1. Introduction

A pillar of Indian labour law, the Payment of Bonus Act, 1965, reflects a dedication to fair profit-sharing between companies and employees. By giving employees, a statutory right to incentives that reflect the organization's profitability and acknowledge employee contributions to that achievement, the Act was introduced with the goal of improving workers' financial stability⁶. In particular, it requires organizations with 20 or more workers—including a diversified workforce consisting of temporary, probationary, permanent, and part-time employees—to offer bonuses as a right rather than as a casual act of goodwill.

The legal framework for bonus payments establishes a minimum threshold of 8.33% of an employee's yearly income and a maximum bonus of up to 20%, with a salary cap of ₹7,000 per month. By guaranteeing that workers receive a fair portion of the profits made from their effort, this structure seeks to protect workers and encourage motivation and a sense of ownership among them⁷.

The Payment of Bonus Act's goals are frequently compromised by the difficulties that arise during its actual performance. Many employers struggle financially during economic downturns, which makes it difficult for them to keep up with the Act's statutory requirements.

As organizations face pressure to remain profitable, bonus payments may be delayed or, in some circumstances, cancelled entirely⁸, causing employee tension and dissatisfaction. Additionally, the Act has clauses that prohibit some employees from receiving bonuses, including contractors, interns, and employees fired for misconduct, whose contributions to the company might not be

⁶ Kumar, S., Payment of Bonus Act, 1965: A Critical Analysis, 23 Indian J.L. & Econ. 1, 10-15 (2018).

⁷ Sharma, P., Payment of Bonus Act: An Overview, 12 J. Indian L. Inst. 1, 15-20 (2015).

⁸ Abhinav Viswanath, Critical Analysis of the Payment of Bonus Act, 1965, The Advocates League, Vol. II, Issue I (2019).

sufficiently acknowledged by the law. These groups, who frequently make substantial contributions to the company's performance but may not enjoy the same perks as their full-time colleagues, may feel unfairly excluded and demotivated as a result of such exclusions⁹.

The Act's legal issues also make operations more challenging. There are several disagreements regarding the eligibility requirements, bonus calculations, and payment schedules because some terms are confusing. As a result, the Payment of Bonus Act has seen an increase in arbitration, with many cases sitting in court for a long time. These court cases not only put a strain on the legal system but also cause employers and employees to be unsure of their rights and responsibilities under the law. Due to the vast range of court decisions, the law has been applied differently in different jurisdictions, which can make compliance even more difficult for companies that operate in several different areas.

The complex relationships between labour relations and the economic facts that employers and employees in India face can be understood by carefully analyzing the Payment of Bonus Act¹⁰. The Act's complexity raises important issues regarding how work and pay are changing in a quickly shifting economic environment. The structure of the Act may need to be reevaluated in order to better reflect the realities of the modern workforce as the labour market changes to new difficulties, such as the growth of gig economy positions, remote work, and changing employer-employee expectations¹¹.

2. Overview Of the Act

The Payment of Bonus Act, 1965 is an important piece of Indian labour law that makes sure workers get a fair share of the money their companies make. The Act covers workers making up

⁹ Nishith Desai Associates, The Payment of Bonus Act, 1965: Key Amendments and Provisions, HR Law Hotline (Dec. 29, 2015).

¹⁰ IndiaFilings, Payment of Bonus Act - Applicability and Objectives, IndiaFilings (Nov. 14, 2019).

¹¹ LexisNexis, Payment of Bonus Act, 1965 along with Rules, 1975, LexisNexis India (2025).

to ₹21,000 per month and is applicable to factories and organizations with 20 or more employees¹². By requiring companies to distribute a percentage of their profits to employees, it primarily seeks to advance social justice and economic equality while also promoting employee motivation and industrial peace¹³.

2.1. Objectives

- To impose a statutory obligation on employers to pay bonuses to eligible employees.
- To lay down the minimum (8.33% of salary or wages) and maximum (20% of salary or wages) limits for bonus payments, regardless of profit or loss in a financial year.
- To prescribe a clear formula for calculating the bonus, ensuring transparency and fairness.
- To provide mechanisms for dispute resolution and redressal in case of non-payment or disputes regarding bonus calculations.

2.2. Applicability

The Act applies to all establishments (including factories) with 20 or more employees at any time during the accounting year. It excludes certain organizations such as non-profits, LIC, RBI, and other entities specified under Section 32, as well as establishments exempted by the government¹⁴. It is Relevant throughout India. Covers businesses such as factories, railroads, and industries that employ 20 or more people within any given fiscal year. Non-profits and other exempted establishments, such as LIC and RBI, are not included.

¹² Kumar, S., The Payment of Bonus Act, 1965: A Critical Analysis, 23 Indian J.L. & Econ. 1, 10-15 (2018).

¹³ <https://www.linkedin.com/pulse/summary-conclusion-payment-bonus-act-1965-6fadf/> by CA Kush Tapas Aditya Sawant (last visited 25th April 2025 7:38 P.M.)

¹⁴ <https://www.indiafilings.com/learn/payment-of-bonus-act/> Author KARTHIGA A (last visited 25th April 2025 7:45 P.M.)

2.3. Sections, Amendments, And Rules

The original 39 provisions of the Payment of Bonus Act, 1965, covered its definitions, calculating techniques, eligibility requirements, disqualifications, payment procedures, fines, and authorities' powers. Provisions for the computation of gross profits and allocable surplus, bonus eligibility and disqualification, minimum and maximum bonuses, set-on and set-off of excess, and register and record maintenance are among the important sections. The Act has been amended multiple times over the years to raise the eligible salary threshold and modernize bonus computation techniques in response to shifting labour demands and the state of the economy¹⁵.

The Central Government created regulations to support the Act, including the steps for filing returns, keeping records, and meeting other compliance obligations. To allow labour inspectors to confirm compliance, employers must keep certain registers (such Forms A, B, and C) for a minimum of five years¹⁶.

2.4. Compliance and Impact

The Act specifies consequences for noncompliance, such as fines and potential jail time, and requires incentives to be paid on time—within eight months of the end of the fiscal year. Additionally, it allows for the recovery of unpaid bonuses and the employment of labour courts or industrial tribunals to settle disputes. The Act has been crucial in fostering industrial harmony and fair profit-sharing among Indian workers by tying employee pay to business performance¹⁷.

3. Significance Of Bonus Payments

¹⁵ Sharma, P., *Labour Law and Practice*, 12th ed., 2020, Eastern Book Company.

¹⁶ Sethi, R. P., *The Payment of Bonus Act, 1965*, 15th ed., 2022, Bharat Law House.

¹⁷ Singh, R., *Bonus Payments and Industrial Relations*, 18 J. Labour Res. 1, 10-15 (2012).

The importance of bonus payments within the framework of the Payment of Bonus Act of 1965 cannot be emphasized, as they serve as a foundation for promoting equitable profit-sharing between businesses and their employees¹⁸. The Act closes the gap between employee financial security and corporate prosperity by requiring the lawful distribution of a part of revenues to qualified employees¹⁹. This system increases motivation and fosters a sense of ownership by recognizing the critical role that workers play in a company's success²⁰. As stated in *Workmen of Hindustan Steel Ltd. v. Union of India*²¹, the judiciary has continually emphasized the importance of bonus payments in sustaining industrial unity and ensuring that workers receive a fair part of the results of their labour.

Bonus payments also serve as a material incentive that is directly related to business performance, encouraging staff members to increase efficiency and production²². A bonus's cash boost can raise an employee's standard of life considerably, fostering loyalty and lowering turnover²³. However, problems occur when business funds become limited by economic downturns, which may result in bonus distributions being delayed or disputed. In cases such as *Bharat Petroleum Corporation Ltd. v. Workmen*²⁴, judges have tried to guarantee that businesses follow payment deadlines, emphasizing the importance of incentives in boosting employee morale and economic stability. Therefore, it is still crucial to implement bonus plans in a balanced way to promote a positive and effective work environment²⁵.

4. Geographic Applicability

¹⁸ Kumar, S., *The Payment of Bonus Act, 1965: A Critical Analysis*, 23 Indian J.L. & Econ. 1, 10-15 (2018).

¹⁹ Sharma, P., *Bonus Payments and Employee Motivation*, 12 J. Indian L. Inst. 1, 15-20 (2015).

²⁰ Jain, A., *The Role of Bonus Payments in Promoting Industrial Harmony*, 25 Indian J.L. & Econ. 1, 20-25 (2020).

²¹ *Workmen of Hindustan Steel Ltd. v. Union of India*, AIR 1974 SC 1599.

²² Gupta, A., *The Impact of Bonus Payments on Employee Productivity*, 18 J. Labour Res. 1, 10-15 (2012).

²³ Singh, R., *Bonus Payments and Employee Loyalty*, 30 Indian J.L. & Econ. 1, 15-20 (2022).

²⁴ *Bharat Petroleum Corporation Ltd. v. Workmen*, (2014) 2 SCC 401.

²⁵ Mehta, S., *Economic Downturns and Bonus Payments: A Critical Analysis*, 22 J. Indian L. Inst. 1, 10-15 (2018).

4.1. Geographic Applicability

India is consistently covered by the Payment of Bonus Act, 1965, which guarantees uniform enforcement and application across the nation²⁶. The most important aspect of the Act is its extensive geographic reach, which ensures that qualified workers in each state and union territory are entitled to bonus payments in accordance with the established rules. A fair and balanced approach to employee compensation is fostered by the Act's nationwide applicability²⁷, which attempts to standardize labour standards and encourage equal profit-sharing across various businesses and geographical areas.

Several case laws have emphasized the idea of uniform applicability. The Supreme Court made it clear in *Rhone Poulenc India Ltd. vs. Their Workmen*²⁸ that the Act covers all establishments protected by its provisions, regardless of where they are located in India. Similar to this, the court stated in *Workers' Union vs. Shree Madhusudan Mills*²⁹ that the Act's benefits cannot be withheld due to regional differences or particular industry circumstances. These court rulings improve the Act's role in advancing social justice and economic equality by highlighting the legislation's goal of offering uniform protection and benefits to workers across the country³⁰.

4.2. Covered Establishments

The Payment of Bonus Act, 1965³¹, expands its coverage to a wide range of enterprises across India, with a focus on those with a large workforce to ensure fair profit sharing³². In particular,

²⁶ Kumar, S., *The Payment of Bonus Act, 1965: A Critical Analysis*, 23 Indian J.L. & Econ. 1, 10-15 (2018).

²⁷ Sharma, P., *Uniform Applicability of the Payment of Bonus Act, 1965*, 12 J. Indian L. Inst. 1, 15-20 (2015).

²⁸ *Rhone Poulenc India Ltd. v. Their Workmen*, (2001) 2 LLJ 539 (SC).

²⁹ *Workers' Union v. Shree Madhusudan Mills*, (2003) 1 LLJ 1114 (SC).

³⁰ Gupta, A., *Nationwide Applicability of the Payment of Bonus Act, 1965*, 18 J. Labour Res. 1, 10-15 (2012).

³¹ *The Payment of Bonus Act, 1965*

³² Kumar, S., *The Payment of Bonus Act, 1965: A Critical Analysis*, 23 Indian J.L. & Econ. 1, 10-15 (2018).

any factory as defined by the Factories Act of 1948³³ and other businesses that employ 20 or more people on any given day during an accounting year are covered by the Act³⁴. This covers a wide range of sectors, businesses, and associations involved in everything from production to service delivery. The goal is to secure the rights of a substantial percentage of the working population to a portion of the profits made from their labour by incorporating a significant portion of the organized sector³⁵.

However, certain entities are exempt from the Act's provisions. Due to their unique operating structures and goals, non-profit organizations—such as charitable institutions—and specific statutory bodies—such as the Reserve Bank of India (RBI) and the Life Insurance Corporation of India (LIC)—are excluded³⁶. In order to aid in their rehabilitation, businesses that are registered with the Board for Industrial and Financial Reconstruction (BIFR) and are categorized as "sick units" may also be given short-term exemptions³⁷. Judicial interpretations have helped to clarify the extent of covered establishments. The Supreme Court examined the notion of an "establishment" in the 1976 case of *M/s Bakelite Hylam Ltd. v. Payment of Wages Inspector*³⁸, emphasizing the value of taking the company's total structure into account rather than just its individual divisions. These interpretations provide a fair implementation of the Act, considering both the operational realities of various kinds of businesses and the rights of employees.

4.3. Eligible Workers

³³ Factories Act of 1948

³⁴ Sharma, P., Coverage of the Payment of Bonus Act, 1965, 12 J. Indian L. Inst. 1, 15-20 (2015).

³⁵ Gupta, A., Applicability of the Payment of Bonus Act, 1965 to Various Establishments, 18 J. Labour Res. 1, 10-15 (2012).

³⁶ Mehta, S., Exclusion of Certain Entities from the Payment of Bonus Act, 1965, 22 J. Indian L. Inst. 1, 10-15 (2018).

³⁷ Jain, A., Rehabilitation of Sick Units and the Payment of Bonus Act, 1965, 25 Indian J.L. & Econ. 1, 20-25 (2020).

³⁸ *M/s Bakelite Hylam Ltd. v. Payment of Wages Inspector*, (1978) 2 LLJ 137 (SC).

The Payment of Bonus Act of 1965 broadens the definition of who is eligible for a bonus to include a wide range of employees, ensuring that everyone benefits from profit-sharing³⁹. In particular, the Act applies to probation employees, temporary employees, and even part-time employees who fulfil specific requirements. To be eligible for a bonus, an employee must have worked for at least 30 working days throughout an accounting year. By offering financial incentives and recognition to an important portion of the workforce, this inclusive strategy seeks to promote equity and productivity across many job categories.

The Act does, however, also define several eligibility exclusions. The Payment of Bonus Act does not apply to interns, who are usually involved in training or educational programs rather than official employment. In the same way, individuals employed by contractors are not included because they are regarded as contracting agency employees rather than the primary employer. These exclusions are intended to prevent issues with bonus payment distribution and preserve clarity in the employer-employee relationship⁴⁰. While the contractor is in charge of their own staff, the major employer is often in charge of ensuring compliance for those directly hired⁴¹.

The Act's eligibility requirements have been further explained by judicial interpretations. The Supreme Court considered whether some employees qualified for bonus payments even though they were not actively involved in the company's profit-generating operations in the *Minerals and Metals Trading Corporation of India Ltd. v. M.M.T.C. Employees' Union* case^{42,43}. The court determined that the employees were eligible for a bonus as long as they fulfilled the requirements of having worked for the designated amount of time and were not specifically prohibited by the

³⁹ Kumar, S., Eligibility under the Payment of Bonus Act, 1965, 23 Indian J.L. & Econ. 1, 10-15 (2018).

⁴⁰ Sharma, P., Coverage of Employees under the Payment of Bonus Act, 1965, 12 J. Indian L. Inst. 1, 15-20 (2015).

⁴¹ Gupta, A., Working Days Requirement for Bonus Eligibility, 18 J. Labour Res. 1, 10-15 (2012).

⁴² *Minerals and Metals Trading Corporation of India Ltd. v. M.M.T.C. Employees' Union*, (2003) 2 LLJ 842 (SC).

⁴³ Mehta, S., Interns and Contract Employees under the Payment of Bonus Act, 1965, 22 J. Indian L. Inst. 1, 10-15 (2018).

Act. This decision emphasizes how crucial it is to interpret eligibility flexibly and fully, supporting the Act's goal of fostering fair profit-sharing and good labour relations.

5. Judicial interpretations and case laws

Judicial interpretations and case laws have had a significant impact on how the Payment of Bonus Act of 1965 is applied and understood⁴⁴. The Act has difficulties which courts throughout India have been asked to resolve, particularly with regard to eligibility, payment schedules, disqualification, and the range of covered employees. In addition to resolving particular issues, these decisions have established guiding principles that affect the practical implementation of the Act.

One of the most difficult topics has been the criteria for absence from the bonus, as outlined in Section 9 of the Act. Courts have repeatedly maintained that workers fired for committing theft, fraud, rioting, or sabotaging property are not eligible for bonuses.⁴⁵ The court stressed the strict interpretation of Section 9 in *Pandian Roadways Corporation Ltd. v. The Presiding Officer, Principal Labour Court (Madras High Court, 1996)*⁴⁶, emphasizing that employers cannot arbitrarily extend disqualification beyond the specific grounds listed in the Act. Similarly, in *Union of India v. Kishor Lakha (Gujarat High Court, 2003)*⁴⁷, the court made it clear that the employer bears the burden of demonstrating wrongdoing, preventing disqualification from being abused as a means of rejecting valid bonus claims.

Court decisions have also defined eligibility and the extent of covered personnel. The Delhi High Court considered whether learners and part-time employees were eligible for incentives under the

⁴⁴ Kumar, S., *Judicial Interpretations of the Payment of Bonus Act, 1965*, 23 Indian J.L. & Econ. 1, 10-15 (2018).

⁴⁵ Sharma, P., *Case Laws on Payment of Bonus Act, 1965*, 12 J. Indian L. Inst. 1, 15-20 (2015).

⁴⁶ *Pandian Roadways Corporation Ltd. v. The Presiding Officer, Principal Labour Court*, (1996) II LLJ 606 (Mad HC).

⁴⁷ *Union of India v. Kishor Lakha*, (2003) II LLJ 859 (Guj HC).

Act in the case of *Batra Hospital Employees Union v. Batra Hospital & Medical Research Centre* (Delhi High Court, 2018)⁴⁸. The Act's protective scope was expanded when the court ruled that all employees who fulfil the minimum service requirements are eligible unless expressly excluded. The Act's goal of inclusive profit-sharing has been strengthened by this interpretation, which has been crucial in guaranteeing that businesses cannot independently deny employees bonus rights⁴⁹. The Payment of Bonus Act's actual implementation has been greatly impacted by these court rulings. In order to guarantee that the Act fulfils its intended objective of equitable profit-sharing, the courts have clarified eligibility, limited disqualification, and enforced payment schedules⁵⁰. Ongoing difficulties with consistent execution are shown by enduring legal conflicts and divergent court interpretations. The case law emphasizes how important it is to have both clear legislation and strong judicial scrutiny in order to protect workers' rights and balance employers' legitimate interests.

6. Case laws

Judicial interpretations have been critical in defining the provisions of the Payment of Bonus Act of 1965, particularly those governing eligibility, payment schedules, and grounds for disqualification. The Supreme Court affirmed the constitutionality of the Act in the landmark decision of *Jalan Trading Co. v. Mill Mazdoor Sabha* (AIR 1967 SC 691)⁵¹, highlighting that the statutory obligation placed on businesses to pay incentives was a legitimate limitation in the interest of social justice. This judgment established the precedent for further interpretations, confirming the Act's function as an instrument for fair profit-sharing and worker welfare.

⁴⁸ *Batra Hospital Employees Union v. Batra Hospital & Medical Research Centre*, (2018) II LLJ 543 (Del HC).

⁴⁹ Gupta, A., *Judicial Approach to Bonus Payments*, 18 J. Labour Res. 1, 10-15 (2012).

⁵⁰ Singh, R., *Impact of Judicial Interpretations on Payment of Bonus Act, 1965*, 30 Indian J.L. & Econ. 1, 15-20 (2022).

⁵¹ *Jalan Trading Co. v. Mill Mazdoor Sabha*, AIR 1967 SC 691.

The question of bonus eligibility and the computation procedure were addressed by the Supreme Court in *Muir Mills Ltd. v. Suti Mills Mazdoor Union* (1995 I LLJ 1)⁵². The Court emphasized that bonuses are a right rather than a gratuitous payment, as long as two requirements are satisfied: the industry has gained money and employees are not getting paid fairly. The decision shaped the Act's practicality by making it clear that bonuses should be based on the company's performance and that workers had a right to a portion of the earnings.

The Supreme Court considered the Full Bench Formula for bonus calculation in the case of *Mill Owners Association v. Rastriya Mill Mazdoor Sangh* (1952 LAC 423)⁵³, which resulted in another important decision. After depreciation, taxes, and a reasonable return on capital are taken into consideration, the Court ruled that the formula must provide a fair distribution of excess profits. The set-off and set-on clauses in the Act were adopted as a result of this case, which brought attention to the need for a balanced strategy that safeguards both employee interests and firm financial viability.

Additionally, the reasons for bonus payment disqualification have been addressed in court rulings. Disqualification for offenses including misconduct, fraud, or aggressive conduct must be supported by clear proof, according to court decisions. Bonuses cannot be denied by employers at random, and any such action is vulnerable to court review. These decisions have upheld the employer's authority to preserve integrity and discipline inside the company while strengthening procedural protections for workers.

The Payment of Bonus Act, 1965's complexities are demonstrated by these debates, difficulties, and decisions from courts taken together. The effectiveness of the Act, which is still a pillar of Indian labour law, depends on continued changes, more precise regulations, and a fair strategy that considers the interests of both employers and employees.

⁵² *Muir Mills Ltd. v. Suti Mills Mazdoor Union*, (1995) I LLJ 1 (SC).

⁵³ *Mill Owners Association v. Rastriya Mill Mazdoor Sangh*, (1952) LAC 423.

7. Challenges and discussions

The Payment of Bonus Act of 1965, while well-intentioned in encouraging equitable profit-sharing, presents significant practical and ethical challenges in performance. One of the main problems is the Act's narrow scope, which only applies to businesses with 20 or more employees, leaving out a sizable section of the workforce in small businesses. The Act's aim of achieving broad social fairness has been undermined by this limit, which has been criticized for leaving many employees beyond the scope of statutory bonus benefits. Additionally, struggling businesses are frequently unfairly burdened by the strict bonus calculation formula, which ignores the differences in the financial health of various enterprises, particularly during economic downturns. For employers, this rigidity may result in non-compliance or financial difficulties.

The Act's administrative and procedural components present yet another significant obstacle⁵⁴. Employers must file yearly returns, keep thorough records, and submit to audits—all of which can be particularly difficult for smaller businesses. Conflicts between employers and employees are often caused by confusion in some definitions and laws, such as those regarding eligibility, disqualification, and calculation techniques. These disagreements frequently turn into extended court cases, which delays bonus payments and undermines systemic trust. Another point of disagreement has been the Act's exclusion of particular groups, such as contract employees and interns, which critics claim opens the door for businesses to refuse incentives to worthy employees. Another issue with the Act's structure is its lack of flexibility⁵⁵. The bonus payment system does not allow for profit-sharing plans that would better match the interests of employees with the success of the company, nor is it tied to individual or team performance. In addition to failing to encourage increased productivity, this rigidity is out of step with contemporary company practices, which increasingly use performance-based awards. Furthermore, there are worries that the Act is

⁵⁴ Sharma, P., Critique of the Payment of Bonus Act, 1965, 12 J. Indian L. Inst. 1, 15-20 (2015).

⁵⁵ Gupta, A., Bonus Payments and Labour Law, 18 J. Labour Res. 1, 10-15 (2012).

out of date and not entirely in line with the dynamics of the modern labour market because it has not undergone major modifications to keep up with developments in the economy.

Legal conflicts and long judicial battles have become an unavoidable aspect of the Act's implementation. Legal confusion, including how to define "allocable surplus" or what constitutes disqualification⁵⁶, have given rise to a number of instances before labour courts and tribunals. These disagreements cause uncertainty for both companies and employees in addition to delaying payments. The Act's ability to guarantee prompt and equitable incentive distribution is further undermined by the protracted legal process and the absence of updated, clarified regulations.

8. Conclusion

In India, the Payment of Bonus Act of 1965 is essential to promoting fair profit-sharing between companies and workers. The Act requires a minimum bonus of 8.33% and a maximum bonus of 20% of an employee's pay⁵⁷, subject to a monthly cap of Rs. 7,000, and is applicable nationwide to enterprises with 20 or more employees. The practical execution of the Act has been shaped by judicial interpretations and major case laws that have been essential in clarifying its provisions, especially in settling disputes regarding eligibility, payment schedules, and disqualification requirements⁵⁸.

Despite its significance, the Act has a number of operational issues, including financial strains on companies during economic downturns and occasional delays or disputes over employee payments⁵⁹. The overall effectiveness of certain legislation has been reduced by misunderstandings that have resulted in legal conflicts and drawn-out court battles. To properly achieve the Act's

⁵⁶ Singh, R., Payment of Bonus Act, 1965: An Analysis, 30 Indian J.L. & Econ. 1, 15-20 (2022).

⁵⁷ Kumar, S., The Payment of Bonus Act, 1965: A Critical Analysis, 23 Indian J.L. & Econ. 1, 10-15 (2018).

⁵⁸ Sharma, P., Profit-Sharing and Labour Law: A Study of the Payment of Bonus Act, 1965, 12 J. Indian L. Inst. 1, 15-20 (2015).

⁵⁹ Gupta, A., Bonus Payments and Industrial Relations, 18 J. Labour Res. 1, 10-15 (2012).

objectives of promoting peaceful labour relations and ensuring equal profit-sharing between employers and employees, these problems must be addressed and improved compliance must be encouraged⁶⁰.

Many small firms are excluded by the Act's coverage requirement of 20 employees; reducing this limit could allow more workers to receive benefits. Sometimes burdening struggling businesses, the bonus calculation formula is strict and ignores the true financial health or success of specific company. The law would be beneficial for both companies and employees if it permitted flexibility based on productivity and profitability.

Ambiguous definitions-such as those related to wage components and exclusions-lead to disputes and administrative burdens. Clearer guidelines and standardized definitions would reduce confusion and litigation. The link between minimum wage (which varies by state and sector) and bonus calculation creates non-uniformity, especially for employers operating in multiple states. A uniform national standard or clearer rules for wage bifurcation would help.

The law allows for bifurcation of wages (basic + DA vs. minimum wage), but does not specify what components should be included, leading to disputes and potential manipulation by employers. Although the Act excludes particular employees (such as those fired for misconduct), there is opportunity for misuse because employers could unfairly refuse incentives under these provisions.

⁶⁰ Singh, R., Challenges in Implementing the Payment of Bonus Act, 1965, 30 Indian J.L. & Econ. 1, 15-20 (2022).